

VZCZCXRO5762
PP RUEHCN RUEHGH RUEHVC
DE RUEHBJ #7389/01 3410043
ZNR UUUUU ZZH
P 070043Z DEC 07
FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC PRIORITY 3882
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUCPDO/USDOC WASHDC
RUEHGV/USMISSION GENEVA 2052
RUEHFR/AMEMBASSY PARIS 4218
RUEHRC/USDA FAS WASHDC

UNCLAS SECTION 01 OF 02 BEIJING 007389

SIPDIS

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ENRG](#) [PGOV](#) [SOCI](#) [CH](#)

SUBJECT: NOT-SO-SCIENTIFIC DEVELOPMENT: LOOKING FOR FAST GROWTH IN
CENTRAL CHINA

SUMMARY

¶1. (SBU) Third-tier cities in Central China are aiming for more investment and faster growth even as the Central Government promotes "Scientific Development" following the 17th Party Congress. Hu Jintao's Scientific Outlook on Development calls for more balanced and sustainable development, but a recent visit to Henan Province clearly demonstrated the growing economic policy gap between the Central Government and the provinces. A policymaker in Zhengzhou, Henan's provincial capital, said the province would follow Beijing's dictate, focusing simultaneously on growth and environmental protection. Contacts in two of Henan's third-tier cities, however, shared the view that attracting investment and pushing economic growth outweigh other considerations. While they talked about Scientific Development, they offered differing opinions on the concept's meaning. Central China continues to be an important battleground for the Central Government, as the region struggles to close the economic gap with the more developed coast, despite a lack of resources, overdependence on state-owned enterprises, and a lot of redundant labor. END SUMMARY

TRAVEL TO HENAN PROVINCE

¶2. (U) Emboffs traveled to Henan Province November 13-16 with stops in Anyang, Kaifeng, and Zhengzhou. Emboffs met with officials from the Municipal Foreign Affairs Office, Development and Reform Commission, and Bureau of Commerce in Anyang (an industrial city) and Kaifeng (a tourism destination), both of which are considered "third-tier" cities in China, and exchanged views with students at Henan University in Kaifeng. Emboffs visited Zhengzhou on November 16 to meet with Provincial level officials and talk to students at Henan Light Industry University. Zhengzhou is a VPP city, and photos from this trip can be found at <http://zhengzhou.usvpp.gov>.

TALE OF TWO CITIES: ANYANG AND KAIFENG

¶3. (SBU) Anyang and Kaifeng both are characterized as third-tier cities and fit different niches in Henan's overall development plan. Anyang, a city of 5.25 million people in northern Henan, primarily is a heavy industry (steel) production base with coal resources. Anyang also attracts some tourists as the home of the Oracle Bones -- a 3,000-year-old writing system dating from the Shang Dynasty. Kaifeng, with a population of 4.5 million, lies east of Zhengzhou and is primarily a tourist destination. Kaifeng was the capital of the Song Dynasty and has the second longest city wall in China, but also is seeking to diversify its economy by promoting agricultural production and food processing. Both cities lag behind Zhengzhou

and Luoyang, which are the province's two most developed urban centers.

14. (SBU) Anyang and Kaifeng miss out on commercial opportunities because there is not enough available information on third-tier cities in Central China, said Wei Zhiyong, Head of the Foreign Economy Department at the Henan Provincial Development Reform Commission (HPDRC). An Honghai, Director of the Kaifeng Municipal Development and Reform Commission, added that Kaifeng has few large industrial projects, and the city is trying to diversify its production to textiles, agriculture, and petrochemicals and also become an educational center. Anyang is in a better situation on the industry side, according to an economic policymaker in the city, but its service sector is weak.

FULL SPEED AHEAD: GDP AND FDI GROWTH STRONG

15. (SBU) Despite challenges, both Anyang and Kaifeng are growing at a brisk pace with Anyang's GDP growth rate hitting 15.6 percent in 2006 and Kaifeng pushing 13 percent. An Anyang official boasted of 250 Foreign Direct Investment (FDI) projects in the city and added that Anyang would like to attract more western investors (most FDI projects are from Hong Kong or Singapore, he said). Wei Zhiyong at the HPDRC pointed out that Anyang's economic base remains largely dependent on Angang, a state-owned steel manufacturer. In this regard, Anyang is a typical third third-tier city in Central China due to its overdependence on a large state-owned enterprise (SOE), Wei said.

16. (SBU) Kaifeng may be lagging farther behind Anyang, but Li Jie at the Municipal Commerce Bureau said the city successfully attracted 110 new foreign companies in 2007. FDI increased 46 percent

BEIJING 00007389 002 OF 002

year-on-year in Kaifeng -- most of which originated in Asia (Hong Kong, Taiwan, Japan, Thailand, Singapore, Korea, Malaysia).

THE EMPEROR IS FAR AWAY: VIEW FROM HENAN

17. (SBU) Our contacts in Anyang, Kaifeng, and Zhengzhou emphasized the primacy of Scientific Development in their respective economic policies, but only one month after the Scientific Development concept was enshrined in China's Constitution during the 17th Party Congress, they all had different definitions of what Scientific Development entails. In Anyang, an economic policymaker said improving energy efficiency and combating pollution are paramount considerations of Scientific Development. A Commerce Bureau official in the city argued that the Central Government's Central China Rising strategy in pursuit of more balanced regional economic growth is part and parcel of the Scientific Development approach and therefore to Anyang's advantage. Nevertheless, contacts in Anyang and Kaifeng all agreed that the need for more balanced development is subordinate to continuing to attract investment and push growth.

18. (SBU) The HPDRC's Wei argued that Henan's challenge fundamentally is to balance economic growth against environmental protection considerations, particularly with regard to conserving water use and discouraging polluting industries. The province's macroeconomic control policies must therefore simultaneously promote faster than average GDP growth while also pushing for better than average reductions on SO2 and CO2. Jia Huaqiang, a professor at the Central Party School who specializes in sustainable development, said it will be difficult for Central China to meet Beijing's standards on Scientific Development. Officials in the provinces should know the meaning of Scientific Development, Jia said, and the concept does not include as many focus areas as put forth in Henan.

AS CENTRAL CHINA GOES...

19. (SBU) Comment: Central China continues to be an important battleground region for the Central Government's efforts to implement macroeconomic controls and balance economic growth with

other considerations such as environmental protection and social stability. Provinces (including Henan) and municipalities (such as Anyang, Kaifeng and Zhengzhou) in the region are struggling to overcome a lack of resources, overdependence on state-owned enterprises, and redundant labor to close the economic gap with the more developed coast. Henan Province, with nearly 100 million people and a low GDP per capita, is a prime example of this challenge. The province -- including third-tier cities there -- are seeking to open up to outside investors in order to meet its economic growth goals, but major western investors likely will wait to dive in until after Anyang, Kaifeng, and other third-tier cities establish a proven track record with investors from coastal China and Asia. End Comment.

RANDT